



Dear Investor,

I recently teamed up with Minc Financial Services which is currently engaged as Lead Manager for the Initial Public Offering of Algae.Tec Limited. This offering is seeking to raise \$7.5M to fund a demonstration plant and the company has an MOU with Leighton Contractors. As it happens, the founders and senior management of the company are well known to me and my family superannuation fund is a seed investor in the company.

I'm generally not a great fan of technology startups. Davnet back in 2000 would be the last one that attracted my interest. However I believe that Algae.Tec is as well placed as any to be amongst the first producers globally of Algal oil and biomass at a commercial scale which can be utilised for biodiesel, jet fuel and ethanol. An additional benefit of Algae is that it uses waste carbon dioxide emissions as a feedstock which will contribute to reducing the level of carbon dioxide in the atmosphere. Carbon credits may also be available at some time in the future. Their engineering solution using modified containers rather than the big pond approach adopted by alternative producers means the solution can be taken to the source of the CO₂ (eg a cement plant) and it takes up far less real estate and obviously reduces water loss, important in Australia.

Algae companies have been attracting investments from groups such as Bill Gates' venture fund Cascade Investments, the Rockefeller family's Venrock Associates, ExxonMobil and Anglo American. In recent days an algae company in the United States, PetroAlgae, has filed to raise \$200M in deal backed by Goldman Sachs, UBS and Citigroup. According to The Times, Richard Branson has also been investing in algae. <http://www.cleantechnologytv.com/branson-banks-on-algae/>

To whet your appetite I suggest you watch and listen to an interview with chairman Roger Stroud. <http://www.cleantechnologytv.com/cttv-interviews-roger-stroud-of-algaetec/> and read the attached FN Arena research report.

Then if interested, download and read the prospectus available at <http://www.algaetec.com.au/images/stories/prospectus/ALG-Prospectus-FULL-2010-07-12.pdf> and the supplementary prospectus at <http://www.algaetec.com.au/images/stories/prospectus/ALG-Prospectus-SUPPLEMENTARY-2010-08-26.pdf>. The minimum investment is 10,000 shares at 20c or \$2000. Small investors will be favoured in the allocation because the company is only raising \$7.5m and needs a spread of over 500 shareholders to meet listing requirements.

If you prefer to receive a hard copy of the prospectus, please send an email to me at john.aldersley@mincwealthmanagement.com.au requesting same and they will be sent out by return post.

MINC WEALTH MANAGEMENT

Minc Wealth Management Pty Limited is a corporate authorised representative (No. 340449) of Minc Financial Services Pty Ltd ABN 24 126 999 433 AFSL 317 201 which is a participant of the Australian Securities Exchange

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Please note that this is an early stage company with no customers and is akin to a venture capital style investment and therefore should be considered speculative. I refer you to the risks outlined in the prospectus. My general advice is to restrict any investment to a modest one. Some patience will also be required while the company proves its worth. If they get it right, the upside is of course enormous but these days a prospectus cannot provide any forecasts of this nature so you will have to take my word for it.

Minc will be entitled to a fee of 6% of the funds raised under the prospectus from the company. Minc and its related entities disclose that its directors, employees and /or associated entities may participate in the IPO, and may hold securities in the Company, including pre IPO seed shares issued at \$0.08, and that their holdings may change from time to time.

If you note on the prospectus application form that you sourced your application from MINC (Broker Code = 2302) and most importantly from me (Adviser code =JA1) I will be able to organise a rebate of 50% of any fee otherwise due to me. You can send the applications directly to me : JA1 - AlgaeTec Applications, PO Box R1705, Royal Exchange NSW 1225.

Yours sincerely

John Aldersley Director, Minc Wealth Management P/L

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Algae.Tec Off And Running

FNArena News - August 27 2010

By Greg Peel

The global algae biofuel market is heating up. Last week US company PetroAlgae, which to date boasts a two hectare algal oil demonstration plant, announced it was moving from an over-the-counter traded stock to an initial public offering (IPO) of US\$200m in listed shares. The issue is underwritten by Goldman Sachs, UBS and Citigroup, among others.

The IPO follows a secondary issue by existing US algal oil company Solazyme of US\$52m which brought aboard Morgan Stanley as a new investor.

The algae biofuel process offers two sought after benefits for the twenty-first century – the capture and conversion of carbon dioxide to offset polluting industry and the production of a range of products from low emission biodiesel to fertilisers. Algae is a renewable energy source which, for example, can produce ethanol without the need to draw upon the world's food resources.

While renewable energy sources such as solar, wind and geothermal have attained commercialised levels of development, algae exploitation is still in its infancy. Companies such as PetroAlgae have advanced to the demonstration phase but no commercial plant exists across the globe as yet.

Indeed, there has been critical commentary on the PetroAlgae IPO, suggesting the fledgling algae industry is getting ahead of itself and risks disappointing investors. It is not a leap of logic to assume all proponents of alternative energy have seen the Gulf oil disaster as an incentive to monetise the zeitgeist.

It is within this environment that Australian company Algae.Tec is also in the process of an IPO. However at A\$7.5m, Algae.Tec's issue is hardly one that can be described as exploitative or prematurely opportunistic, and the company's legally protected intellectual property represents years of research by US-based Tech.Bio LLC. Algae.Tec already runs a small experimental plant, and is simply looking for low-level funding to move to demonstration plant status. PetroAlgae has announced it will use the proceeds of its IPO to pay down already accumulated debt.

The Algae.Tec story is fully outlined in an article published by FNArena earlier this month: An Opportunity to Enter the Biofuel Revolution At The Base Level.

It may thus appear Algae.Tec is "behind" the likes of PetroAlgae on the development time line. But in fact nothing could be further from the truth. FNArena this week spoke at length with Algae.Tec executive chairman Roger Stroud.

The bulk of algae exploitation systems are based on the "pond method" which involves growing algae in mostly open pond systems. The pond method involves concentrating sunlight for accelerated algal growth but also assumes the carbon dioxide input required is sourced from the atmosphere. Algae growth thus provides a more rapid CO2 capture than more straightforward carbon offset system of growing trees. Trees take some time to reach their optimal capture potential.

The resultant algae biomass can then be used to produce clean fuel alternatives such as ethanol. This is not an option for the trees unless those trees are cut down again, and quite simply it requires a large area to provide meaningful CO2 offset and biofuel yield.

The scalability of algae pond systems is nevertheless also dependent upon expanded land usage. And open ponds are exposed to evaporation, storms and foreign bodies and require significant water usage – a scarce and potentially expensive resource.

What sets Algae.Tec's technology apart is that it exploits a patented system of algae growth not within ponds but within converted shipping containers. Scalability thus becomes modular, and land requirement is reduced by the ability to stack those modules. The closed modules are not exposed to the same problems as open ponds. And, most importantly, the modules are readily transportable.

In the pond system, the CO2 must come to the pond. To improve yields and accelerate algal growth, captured CO2 can be introduced but (a) it must be transported to the site from an emitter and (b) a lot of the introduced CO2 will simply bubble out of the pond again. In Algae.Tec's system, the "pond" comes to the CO2. Closed modules can be stacked adjacent to an emitter (eg a power station) and everybody wins. The emitter has a *direct* and measurable carbon offset and the introduced CO2 exponentially accelerates algae biomass production for conversion into commercial products which are themselves a source of renewable alternative energy (which in theory can also be used as an energy source by said emitter).

It had been Algae.Tec's intention to raise the \$7.5m to build a demonstration plant which would specifically be fed from emitted CO2, not the atmosphere. At the time of the initial prospectus, an agreeable emitter was being sought by Leighton Holdings (LEI) under an existing memorandum of understanding (MOU). The IPO was scheduled to close on September 3, but now that emitter has been found.

Algae.Tec has now signed a memorandum of understanding with Shoalhaven Starches Pty Ltd, a subsidiary of the Manildra Group. Manildra is primarily a producer of wheat flour and secondarily a producer of differentiated **byproducts** such as gluten, glucose and starch. Nowra-based Shoalhaven Starches converts starch into ethanol, making the Manildra Group Australia's largest ethanol producer.

As a side-bar, in June the NSW state government introduced legislation which phases out the availability of standard unleaded petrol and replaces it under mandate with a 90/10 petrol/ethanol blend ("E10"). NSW motorists will now only have the option of filling with more expensive premium unleaded if they choose not to fill with E10.

Manildra's ethanol production plant operates using a CO₂-emitting power plant. Therein lies a potential source of CO₂ for exploitation by Algae.Tec technology, but CO₂ is actually also emitted from the conversion of starch into ethanol. For Algae.Tec, it's a double-whammy.

But wait, there's more.

Algae does not grow on CO₂ alone, and requires certain nutrients to be introduced to water to precipitate growth – which is exactly what happens when an algal bloom forms on a river or near ocean beaches. The production of starch requires a lot of water usage, and produces a lot of waste water as a result. That waste water is rich in nutrients, which is no good for drinking but lifeblood for algae. For Algae.Tec, this means a triple-whammy. It's almost a closed system.

Algae.Tec has thus found the site for its demonstration plant. At the time its IPO prospectus was published, it had not. This means a supplementary prospectus has now been published and the close of application date for the IPO has been extended to September 17. Algae.Tec hopes to have the demonstration plant in operation by the June quarter, 2011.

The demonstration plant will consist of two or three container modules but if it proves successful the MOU extends to the construction of Algae.Tec's first commercial plant at the site consisting of some 200-300 containers. Requisite council and environmental applications for such a plant will be filed immediately rather than waiting until after the demonstration proves viable.

The Nowra-based plant would then be the world's first commercial algae operation. At this point, Algae.Tec is not yet planning to produce its own ethanol from the resultant biomass given there are a number of options to be explored, including directing the algae to the production of nutrient-rich stock feed for sale in the region.

Shoalhaven Starches already enjoys a healthy working relationship with local authorities and the local community, both through being diligent in its pollution management and through employing all of its workforce locally.

But wait, there's still more.

Algae.Tec has also signed another new MOU which becomes part of the supplementary prospectus. The MOU involves Algae.Tec in a 49/51 joint venture partnership with Bioenergy Investment Ltd – an alternative energy investment vehicle incorporated in Hong Kong. Bioenergy Investment is itself a joint venture between Hong Kong company Pacific Minerals and Australian company RKD International.

The purpose of the joint venture is to first seek intellectual property protection for Algae.Tec's technology in China. While readers can be forgiven for being sceptical about protecting foreign IP in China, the reality is China is now a determined world leader in the commercial development and exploitation of alternative fuel sources. Beijing is leaving no stone unturned in its push to ensure China is not forever reliant on foreign fossil fuel exports, despite being forced to step up the construction of coal-burning power plants alongside planned nuclear capacity. Beijing has also now experienced the horrors of unfettered industrial pollution (think a government-enforced smog-free Beijing at the Olympics) and thus by default is now most pro-active in developing

clean technologies.

Nor is such technology subject to any glacial process of scrutiny by committee or community as may be the case in other economies, and nor is it beholden to censure by disgruntled industry lobby groups and political donors. What Beijing wants, Beijing gets.

Thus the joint venture's specific plan is to introduce algae technology to China. One does not need to explain the potential.

Whereas the 200-300 containers which are intended to form the first commercial plant in Nowra will likely be fitted out in the US and shipped to save construction costs (and shipping containers have proven relatively straightforward to ship), the JV will first seek a manufacturing group to fit out containers in China. This shouldn't be too hard as China is now the world's biggest manufacturer of shipping containers.

Incidentally, the containers in question are not purpose-built but are indeed fitted out, recycled shipping containers. Another little tick in the green box.

Thereafter, clearly the intention is to build and operate commercial facilities in China. No demonstration plant will be built, given Nowra will provide demonstration enough.

Clearly Algae.Tec's two new MOUs, to add to existing the MOU with logistics and plant construction and management specialist Leighton Holdings, are of a material nature. Hence the supplementary prospectus and extended closing date for the \$7.5m IPO.

Prospective investors must take note that while all of the above sounds very promising, algae technology is yet to be proven on a commercial scale anywhere in the world. While demonstration plants are intended to provide proof, there are no guarantees. This is a speculative investment. There will be no cashflow ahead of commercialisation. And the commercialisation phase will require the issuing of significantly more capital.

The Algae.Tec IPO is not underwritten by any third party. Lead manager in the issue is Minc Stockbroking [thinkminc.com.au] and stock analysis has been undertaken by research house Wise Owl [wise-owl.com].